

# Morning Report

Tuesday, 18 July 2023



| Equities (close & % change)              |          |        | Sydney Futures Exchange (last & change) |         |             |                      |         | Interest rates (close & change) |      |       |
|--|----------|--------|---|---------|-------------|----------------------|---------|---------------------------------|------|-------|
| S&P/ASX 200                              | 7,299    | -0.1%  |   |         | <b>Last</b> | <b>Overnight Chg</b> |         | <b>Australia</b>                |      |       |
| US Dow Jones                             | 34,585   | 0.2%   | 10 yr bond                              | 3.97    |             |                      |         | 90 day BBSW                     | 4.30 | 0.01  |
| Japan Nikkei                             | 32,391   | -0.1%  | 3 yr bond                               | 3.88    |             |                      |         | 2 year bond                     | 3.97 | 0.01  |
| China Shanghai                           | 3,365    | -0.9%  | 3 mth bill rate                         | 4.39    |             |                      |         | 3 year bond                     | 3.91 | 0.00  |
| German DAX                               | 16,069   | -0.2%  | SPI 200                                 | 7,239.0 |             |                      |         | 3 year swap                     | 4.24 | 0.01  |
| UK FTSE100                               | 7,406    | -0.4%  | FX Last 24 hrs                          | Open    | High        | Low                  | Current | 10 year bond                    | 3.99 | -0.01 |
| <b>Commodities (close &amp; change)*</b> |          |        | TWI                                     | 62.6    | -           | -                    | 62.6    | <b>United States</b>            |      |       |
| CRB Index                                | 267.9    | -2.9   | AUD/USD                                 | 0.6839  | 0.6843      | 0.6788               | 0.6818  | 3-month T Bill                  | 5.24 | 0.01  |
| Gold                                     | 1,955.04 | -0.2   | AUD/JPY                                 | 94.87   | 94.93       | 94.02                | 94.57   | 2 year bond                     | 4.74 | -0.02 |
| Copper                                   | 8,468.00 | -195.3 | AUD/GBP                                 | 0.5223  | 0.5225      | 0.5199               | 0.5214  | 10 year bond                    | 3.81 | -0.03 |
| Oil (WTI futures)                        | 74.15    | -1.3   | AUD/NZD                                 | 1.0742  | 1.0785      | 1.0725               | 1.0779  | <b>Other (10 year yields)</b>   |      |       |
| Coal (thermal)                           | 135.05   | 1.4    | AUD/EUR                                 | 0.6091  | 0.6091      | 0.6053               | 0.6067  | Germany                         | 2.48 | -0.03 |
| Coal (coking)                            | 228.00   | -5.8   | AUD/CNH                                 | 4.8961  | 4.9014      | 4.8783               | 4.8938  | Japan                           | 0.48 | 0.00  |
| Iron Ore                                 | 113.00   | 0.6    | USD Index                               | 99.96   | 100.18      | 99.75                | 99.89   | UK                              | 4.43 | -0.01 |

Data as at 7:45am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

**Main Themes:** Risk sentiment improved as speculation rose that the Fed is approaching the end of its tightening cycle. Traders also jostled with data showing a weakening Chinese economy. US equities rose, treasury yields edged down, and the US dollar softened.

**Share Markets:** US equities posted gains, resuming last week's rally. The S&P 500 rose 0.4%, while the NASDAQ and the Dow Jones were up 0.9% and 0.2%, respectively.

The ASX 200 edged down 0.1% yesterday.

**Interest Rates:** US bond yields edged down across the curve. The 2-year treasury yield rose 2 basis points to 4.74%, while the 10-year yield rose 3 basis points to 3.81%.

Interest rate markets are pricing in a 95% chance of a hike from the Fed next week. There is some chance (around 30%) of another hike thereafter.

The yield on the Australian 3-year and 10-year bond futures declined 2 basis points to 3.88% and 3.97%, respectively.

Interest rate markets are pricing in a 25% chance of a hike from the Reserve Bank (RBA) in August.

**Foreign Exchange:** The US dollar edged down alongside the improvement in risk sentiment, holding a narrow range. The USD index fell from a high of 100.18 to a low of 99.75 before retracing to finish around 99.89.

The Aussie dollar softened as weak economic data from China outweighed the falling US dollar. The AUD/USD pair fell from a high of 0.6843 to a low of 0.6788 before retracing to trade around 0.6818 at the time of writing.

**Commodities:** Commodities were broadly softer on the back of weak Chinese economic data. Gold, copper, and oil softened. Iron ore bucked the trend, edging higher.

**Australia:** There were no major economic data releases yesterday.

**China:** June quarter GDP growth surprised to the downside, growing 6.3% in annual terms, compared to expectations for a 7.1% gain. The miss all but confirms that the reopening boom is fizzling out. The economy expanded 0.8% in the quarter, slowing from 2.2% in the March quarter.

Industrial production was stronger than anticipated, growing 4.4% in annual terms, up from 3.5% in the March quarter and comfortably above expectations for a 2.5% gain.

The weakness came partially through retail sales, which jumped 3.1% in annual terms. This compares to expectations for a 3.3% rise and follows a 12.7% increase in the March quarter.

The weak result will likely strengthen expectations for additional stimulus support. Though authorities have hinted that any measures will likely be

relatively modest in scale.

**United Kingdom:** House prices eased 0.2% in July according to Rightmove. This follows a flat reading in June and is the first monthly fall of the calendar year. In annual terms, prices were up 0.5% - the weakest increase since October 2019.

**United States:** US Treasury Secretary, Janet Yellen, played down the risk of a recession but noted that China's slowdown could have ripple effects globally.

The New York Empire manufacturing index came in at 1.1 in July, down from 6.6 in June but stronger than the -3.5 reading expected by consensus.

**Today's key data and events:**

AU RBA Board Meeting Minutes (11:30am)

US Retail Sales Jun exp 0.5% prev 0.3% (10:30pm)

US Indust. Production Jun exp 0.0% prev -0.2% (11:15pm)

US Business Inventories May exp 0.2% prev 0.2% (12am)

US NAHB Housing Market Index Jul exp 56 prev 55 (12am)

Times are AEST. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

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